



1914

U. S. SECURITIES GOVERNMENT FINANCE AND RESERVE BANK ORGANIZATION

NEW YORK, MARCH, 1914.

UPON the expiration of the sixty-day period for acceptance of the Federal Reserve Act—February 23—seven thousand four hundred and sixty-five National Banks had accepted, eighteen had rejected, and ten had not been heard from. Ninety-nine and three-quarters per cent. of the aggregate National Bank capital will therefore be represented in the new system.

The Organization Committee is obtaining for the Federal Reserve Board the views of bankers on the question of what shall constitute commercial paper within the meaning of the Federal Reserve Act. The request is made in a communication addressed to the various clearing-house associations, which are also asked to make suggestions on the clearing-house functions to be undertaken by Federal Reserve Banks and their branches. A number of replies have been received, but are not available for publication at this time. The reply of the New York Clearing House has been made public, and because of the great interest and importance attaching to the subject, it is herewith given in full, together with the communication of the Organization Committee.

The opinion of the Attorney General of each State as to whether its laws will bar State Banks from joining the new system is being obtained by the Organization Committee. As this information is intended for the use of the Reserve Board, the replies received are not available for publication at this time. It is understood from the daily press however, that State Banks in some States will not be eligible for membership.

In carrying out the plan of this circular, there is printed this month all of the announcements, regulations and circulars which have been issued by the Organization Committee during the past month. These include: Regulation No. 2, giving information about the admission of State Banks as members; Circular No. 1, defining the duties and powers of the Organization Committee; statements by Secretaries McAdoo and Houston upon completing their tour of the country as the Organization Committee, wherein Secretary McAdoo indicates that in the event the organization of the Federal Reserve Banks is not completed by Fall, the Treasury will aid in financing the crop-moving; final notice to banks of the expiration of the sixty-day period; Regulation No. 3, prescribing by-laws for the admission of State Banks; and a statement of the

number and aggregate capital of National Banks joining the system.

RESERVE BANK ORGANIZATION COMMITTEE.

Washington, D. C.

February 6, 1914.

SIR :

Section 13, page 14, of the Federal Reserve Act provides, among other things, as follows :

**CLEARING HOUSES
REQUESTED TO
DEFINE COMMERCIAL PAPER**

"Upon the indorsement of any of its member banks, with a waiver of demand, notice and protest by such bank, any Federal Reserve Bank may discount notes, drafts and bills of exchange, arising out of actual commercial transactions; that is, notes, drafts and bills of exchange issued or drawn for agricultural, industrial or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act."

It will be observed that the paper thus made eligible for rediscount is defined as that arising out of "actual commercial transactions. . . . the proceeds of which have been used, or are to be used, for such purposes."

The true definition of "commercial paper" or "commercial transactions" gives rise to a great difference of opinion on the part of bankers generally, and is susceptible of a very broad or very narrow interpretation. The point has been frequently raised, and insisted upon, that "commercial paper" in a purely technical sense should be construed to mean obligations which represent the purchase price of some commodity sold.

Attention has been called to the fact, however, that trade customs in the United States have developed along lines which would limit such paper to a proportionately small amount if this strict and technical interpretation were adopted.

In other words, the established practice now appears to be that instead of the purchaser executing his note to the vendor for the whole or any part of the purchase price of the commodity sold, it has become customary, in order to obtain the benefit of cash discounts, for the purchaser to borrow directly from the banks and to use the proceeds of such loans to make the payment due the vendor. This being true, the question of identification of "commercial paper" presents some practical difficulties.

Those desiring this circular sent to them regularly will receive it without charge upon application.

In the exercise of the power vested in the Federal Reserve Board to determine or define what shall be treated as "commercial paper" the Committee is of the opinion that the Board will desire to have before it the views of practical bankers so that the matter may be considered from all important standpoints.

With this in view I am directed by the Committee to ask your Clearing House to give consideration to this provision of the law, and to submit on or before the *first of March, 1914*, a suggested definition of "commercial paper" and also to submit such suggestions or recommendations as to standard forms of notes, drafts, and bills of exchange covering the various kinds of commercial transactions as may seem advisable to you, to the end that there may be established, as far as possible, a uniform practice among all Federal Reserve and member banks with respect to the creation of the eligible paper provided for in the Federal Reserve Act.

The Bill furthermore provides, in section 16, page 19, as follows:

"The Federal Reserve Board shall make and promulgate, from time to time, regulations governing the transfer of funds and charges therefor among Federal Reserve Banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal Reserve Banks, or may designate a Federal Reserve Bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks."

The Committee also directs me to request that you give consideration to this provision of the Act, and submit for its consideration suggested regulations governing the transfer of funds, and the charges therefor, among the Federal Reserve Banks, and their branches, and also submit your views and suggestions as to how the Federal Reserve Banks themselves could best perform the clearing-house functions contemplated in the Act.

Any suggestions that you may deem advisable to make in connection with these two provisions will receive consideration and be appreciated by the Federal Reserve Board.

Respectfully,

(Signed) M. C. ELLIOTT,

Secretary, Reserve Bank Organization Committee.

February 27, 1914.

M. C. ELLIOTT, Esq.,

Secretary, Reserve Bank Organization Committee,
Washington, D. C.

Dear Sir:

DEFINITION OF

COMMERCIAL PAPER BY
N. Y. CLEARING HOUSE

Your letter of the 6th instant, addressed to the President of the New York Clearing House Association, was submitted by him to the Clearing House Committee for their attention.

We have given careful consideration to the inquiries put by the Reserve Bank Organization Committee as set forth in your letter, and duly appreciate the importance of arriving at such definition of the character of paper eligible for discount by the Federal Reserve Banks as shall meet

the requirements of the business of the country in respect of providing an elastic and stable currency, and, at the same time, provide a definite measure of security.

It is obvious that what the Organization Committee desires is not so much a technical, however accurate, definition of "commercial paper", or "commercial transactions", or "commercial purposes", as the same may be understood in the general sense by bankers or lawyers, but an expression of views as to how the Federal Reserve Board, acting within the powers conferred upon it by the Federal Reserve Act, shall "determine or define what shall be treated as commercial paper" eligible to discount, in order to carry out the true purpose of the Act.

The terms "commercial transactions" and "commercial purposes", in their broadest sense, would cover any transaction and any purpose connected with commerce. Commerce is not confined to the buying, selling or bartering of commodities, but is a term of large significance and, as was said by Mr. Justice Harlan, of the United States Supreme Court, "comprehends traffic, intercourse, trade, navigation, communication, the transit of persons, and the transmission of messages by telegraph,—indeed every species of commercial intercourse . . . which is carried on between man and man".

The purpose of the Federal Reserve Act is primarily "to furnish an elastic currency, to afford means of rediscounting commercial paper." That it was not intended that all paper that might by strict construction come within the general definition of commercial paper should be eligible for discount at a Federal Reserve Bank is made clear by the provisions of Section 13 of the Act, and especially by the clause excluding "notes, drafts or bills covering merely investments, or issued or drawn for the purpose of carrying or trading in stocks, bonds or other investment securities, except bonds and notes of the Government of the United States." It is unnecessary, therefore, to attempt to define commercial paper in its broadest sense. A fundamental requirement is that the paper shall be used not only in connection with the commerce of the country, but that it shall be either directly used in the purchase of commodities or that the proceeds shall be intended to be so used, so that it will have the presumptive security of the commodities, or the avails of a resale thereof, back of it. The custom in this country of sellers of commodities granting discounts for what are known as cash payments has resulted in the practical abandonment of former trade methods whereby the purchaser gave his note to the order of the seller in completion of the transaction, and in the establishment of the practice of bank borrowings by purchasers for the procurement of funds with which to discount their bills. Although such practice could not well be discontinued abruptly, nevertheless *we deem it a matter of the utmost importance that there should be a general restoration of the former conditions in this respect.* The use of acceptances abroad is a prime factor in the open discount market and a similar system should prevail in this country. The purpose of issue of that class of paper is apparent on its face; and as it retires itself automatically it

is an efficient aid in making an elastic circulation. *It is evident from the language of the Federal Reserve Act that the advantages of this system were appreciated, and we urge that every legitimate effort be made to encourage its general adoption.* One aid to that end that suggests itself is the establishment of a difference in rates by the Federal Reserve Banks which would favor commercial paper of the class referred to. In the meantime, we realize that existing conditions must govern in the determination by the Federal Reserve Board of the character of paper that shall be eligible to discount by the Federal Reserve Banks. Having in mind the essential requirement of approximately liquid, or quickly marketable assets, presumptively back of the paper, and the limitations expressed in the Act and its general purposes, we would suggest that promissory notes of each of the above mentioned classes, to be so eligible for discount, may be defined as follows:

(a)

A written instrument, negotiable in form, made by a merchant or manufacturer, or a corporation engaged in either of such occupations, whereby the maker contracts to pay, at some fixed or determinable future time, a definite sum of money stated therein, for the procurement of funds to be used in payment for goods, wares or merchandise intended for resale in some form, but not in the form of real property, and not merely for investment; and which shall bear the indorsement of the payee; and which has not been issued for the purpose of carrying or trading in stocks, bonds or other investment securities, and which shall have a maturity in conformity with the requirements of the Federal Reserve Act.

(b)

A written instrument, negotiable in form, whereby the maker contracts to pay, at some fixed or determinable future time, to the order of some merchant, manufacturer, farmer, dealer in live stock or agricultural products, or mine owner, or a corporation engaged in any such occupation, a definite sum of money stated therein, representing in whole or in part the purchase price of goods, wares or merchandise purchased by the maker from the payee, and intended for resale in some form, but not in the form of real property, and not merely for investment; and which shall bear the indorsement of the payee; and which shall not have been issued for the purpose of carrying or trading in stocks, bonds or other investment securities; and which shall have a maturity in conformity with the requirements of the Federal Reserve Act.

(c)

A draft or bill of exchange, for the purposes of the Act, may be defined as:

An unconditional order in writing addressed by a merchant, manufacturer, farmer, dealer in live stock or agricultural

products, or a mine owner, or a corporation engaged in any such occupation, to another person or corporation, signed by the person or corporation giving it, requiring the person or corporation to whom it is addressed to pay, at a fixed or determinable future time, a sum certain in money to order and which shall have been accepted by the drawee, and shall have been drawn for the purchase price of goods, wares or merchandise sold by the drawer to the drawee and intended for resale in some form, but not in the form of real property, and not merely for investment; and shall not have been issued, drawn, or accepted for the purpose of carrying or trading in stocks, bonds or other investment securities; and which shall have a maturity in conformity with the requirements of the Federal Reserve Act.

(d)

The usual and customary form of notes, drafts and bills of exchange which are directly secured by staple agricultural products, or other goods, wares or merchandise; and such as have been issued or drawn for the purpose of purchasing or of carrying or trading in bonds or notes of the Government of the United States, and which shall have a maturity in conformity with the requirements of the Federal Reserve Act.

The next question to consider is as to how the banker is to determine the qualification of the maker of the note, or the drawer of the draft or bill of exchange, and as to whether or not the paper is to be used for the purposes hereinabove specified. Although the requirement of indorsement by member banks seeking rediscount carries with it a contingent liability measured by the amount loaned thereon by the Federal Reserve Bank, nevertheless, it would obviously be placing too great a burden upon the member banks to require them to assume any other responsibility for all of those facts. We suggest, therefore, that a standard form of promissory note and draft or bill of exchange should be prepared which will contain representations on the part of the maker, and in some cases also of the payee, of the note, and of the drawer of the draft or bill of exchange, to cover these requirements, and that some penalty shall be provided by law for any false statement in these particulars.

We would suggest, merely by way of illustration, the following forms:

FORM No. 1.

\$..... NEW YORK.....191
 after date, the undersigned, for value received, promise to pay to

 or order, at..... Dollars.

The undersigned represents that (he, she or it) is a (merchant or manufacturer, as the case may be) and that this promissory note is given for the procurement of funds to be used in payment for goods, wares or merchandise intended for resale in some form, but not in the form of real property, and not for investment nor for the purpose of carrying or trading in stocks, bonds or other investment securities.

FORM No. 2.

\$..... NEW YORK.....191

after date, the undersigned, for value received, promise to pay to

or order, at.....

Dollars.

The undersigned and the above-named payee each represents that the said payee is a (merchant, or, manufacturer, or farmer, etc., as the case may be), and that this promissory note is given for goods, wares or merchandise, purchased by the maker from the payee, and intended for resale in some form, but not in the form of real property, and not for investment nor for the purpose of carrying or trading in stocks, bonds or other investment securities.

FORM No. 3.

\$..... NEW YORK.....191

.....days after..... DAY

to the order of.....

Dollars.

value received, and charge the same to account of the undersigned who represents that (he, she, or it) is a (merchant, or, manufacturer, or farmer, etc., as the case may be), and that this bill of exchange has been drawn for the purchase price of goods, wares, or merchandise, sold by the drawer to the drawee and intended for resale in some form, but not in the form of real property, and not for investment nor for the purpose of carrying or trading in stocks, bonds or other investment securities.

To Messrs.....

It may be urged that borrowers mingle their funds and ought not to be held accountable, therefore, for the strict application to the purpose specified of the particular moneys borrowed upon paper of the character designated. There are three answers to this: One, that the provision for penalties may be directed towards the *intent* at the time of the issuance of the paper; two, that inasmuch as it is necessary, in order to carry out the true purposes of the law, that commodities or their avails should actually be back of the rediscounted paper, merchants, manufacturers, etc., should be required to limit their use of paper of this character to the strict application to the purposes therein set forth, and should make a division of their funds and accounts accordingly; because, three, they can borrow for other legitimate purposes without making the representations required.

**RETAIN PRESENT
CLEARING HOUSES**

The subject of the exercise by the Federal Reserve Board of the functions of a clearing house for Federal Reserve Banks, and the exercise of like functions by the Federal Reserve Banks for their member banks, is one requiring careful study. The practical questions that enter into its solution are manifold. The necessity for prompt notice of dishonor of repudiated items in order that the parties interested may not suffer by delay, the tremendous amount of business cleared every day, and the fact that many State institutions are not and may never become members of the Federal Reserve system, point to the necessity of the retention of the existing local clearing houses. Whether or not in the future conditions should so change that these institutions could be made departments of the Federal Reserve Banks is something that must await developments for its determination.

Very truly yours,

(Signed) A. H. WIGGIN,

Chairman, Clearing House Committee,
New York Clearing House Association.

Regulation No. 2.

**NEW BANK
CHARTER NOT
REQUIRED**

The Federal Reserve Act provides for membership of banks operating under State charters as well as membership of National Banks. No new charter is contemplated in either case. Eligible banks become members by becoming stockholders in Federal Reserve Banks, when their applications have been properly approved and stock has been allotted to them. Such subscription to the capital stock of the Federal Reserve Bank appears to be a matter within the province of the Board of Directors of the subscribing bank. The Organization Committee therefore deems it unnecessary to require as a condition precedent to membership that the stockholders should take any formal action.

Inasmuch, however, as the stockholders of a bank have the legal right, by necessary vote, to force a solvent bank to liquidate, and if dissatisfied with the action of the Board in becoming members might exercise this prerogative, banks desiring to take the precautionary measure of canvassing the sentiment of the stockholders may, by resolution of their boards, submit the question to the stockholders either at the next regular meeting or at a specially called meeting. This course is, however, not insisted upon by the Organization Committee.

Those National Banks passing resolutions of nonacceptance on or before February 22, 1914, should, as soon thereafter as convenient, and before the expiration of the twelve months prescribed in the Federal Reserve Act, submit their action to the stockholders for confirmation, since nonacceptance of the provisions of the Federal Reserve Act will ultimately involve the liquidation of such National Bank.

Circular No. 1.

Washington, D. C., February 14, 1914.

**ORGANIZATION COM-
MITTEE'S DUTIES AND
POWERS DEFINED**

In view of the large number of inquiries received from both National and State Banks as to the proper interpretation of various sections of the Federal Reserve Act, it is deemed advisable to explain, as briefly as the circumstances will permit, the operation of this Act in so far as it relates to the duties and powers of the Organization Committee and the method of procedure adopted by the Committee. For convenience, these duties are considered in their chronological order.

First. Section 2 of the Federal Reserve Act provides as follows:

"Under regulations to be prescribed by the Organization Committee, every National banking association in the United States is hereby required, and every eligible bank in the United States and every trust company within the District of Columbia, is hereby authorized to signify in writing, within sixty days after the passage of this Act, its acceptance of the terms and provisions hereof."

It will be observed that under the provisions of this section *all* National Banks are *required*, and all other eligible banks are *permitted*, to signify their acceptance of the provisions of this Act within sixty days from its passage. Banks should not confuse this notice to the Committee with the formal application for stock to be filed later.

To facilitate compliance with this provision of the Act, the Committee has forwarded to all National Banks a prescribed form of resolution to be adopted by the Boards of Directors of such banks, and upon request from State Banks is forwarding a prescribed form of resolution for use by such banks. When certified copies of such resolutions have been received and filed no other action by applying banks is necessary until the locations of the several Federal Reserve Banks have been established by the Committee, and the districts to be served by such banks have been defined.

The Committee is now engaged in holding hearings in various parts of the United States in order to have before it as much information as possible to enable it to properly determine the locations of such banks and the districts to be served.

Section 2 further provides as follows:

"When the Organization Committee shall have designated the cities in which Federal Reserve Banks are to be organized and fixed the geographical limits of the Federal Reserve districts, every National banking association within that district shall be required within thirty days after notice from the Organization Committee to subscribe to the capital stock of such Federal Reserve Bank in a sum equal to six per centum of the paid-up capital stock and surplus of such bank, one-sixth of the subscription to be payable on call of the Organization Committee or of the Federal Reserve Board, one-sixth within three months, and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Federal Reserve Board, said payments to be in gold or gold certificates."

This section should be read in connection with Section 4 of the Federal Reserve Act, which reads as follows:

"When the Organization Committee shall have established Federal Reserve districts as provided in Section 2 of this Act a certificate shall be filed with the Comptroller of the Currency showing the geographical limits of such districts and the Federal Reserve city designated in each of such districts. The Comptroller of the Currency shall thereupon cause to be forwarded to each National Bank located in each district, and to such other banks declared to be eligible by the Organization Committee which may apply therefor, an application blank in form to be approved by the Organization Committee, which blank shall contain a resolution to be adopted by the Board of Directors of each bank executing such application, authorizing a subscription to the capital stock of the Federal Reserve Bank organizing in that district in accordance with the provisions of this Act."

It will be observed from the foregoing that the Comptroller of the Currency will cause to be forwarded to those banks which have signified their intention to become members of Federal Reserve Banks, a form of application to be executed by such banks after the districts have been laid out and the location of the Federal Reserve Banks definitely established by the Organization Committee. These forms will be forwarded in due course and in accordance with the further provisions of the Act, when the minimum amount of stock for any Fed-

eral Reserve Bank has been subscribed the Committee will designate five banks to execute the necessary organization certificate. Subscriptions to stock will therefore not be called by the Committee until after these preliminary steps have been taken.

NATIONAL BANKS AS MEMBERS

Attention is called to the fact that all National Banks are required to signify, within sixty days from the passage of the Federal Reserve Act, whether or not they accept the provisions of the Act and intend to subscribe to the stock of the Federal Reserve Banks when organized.

That within thirty days after the Organization Committee has announced the designation of cities in which Federal Reserve Banks are to be organized, fixed the geographical limits to be served, and notified such National Banks, all such National Banks are required to subscribe to the capital stock of such Federal Reserve Banks. These provisions are clearly set forth in the Federal Reserve Act, and the Committee will expect and require a strict compliance therewith.

A number of banks appear to be under the misapprehension that they are allowed twelve months' time in which to accept the provisions of the Federal Reserve Act. This limitation, which is manifestly intended to cause automatically a forfeiture of the charters of those banks failing to comply with the provisions of the Act, must not be construed as extending the time specifically set out in the Act within which such banks must take the action above outlined.

The provisions relating to membership by State Banks are, under the terms of the Act, entirely optional. State Banks are not required to signify within any given time their intention to become members, but are permitted to do so if they desire to become members as soon as Federal Reserve Banks are originally organized.

Two methods are prescribed by the Federal Reserve Act by which such banks may become members of the Federal Reserve System. *First*, under Section 8, by conversion of State Banks into National Banks, in which case the laws applicable to National Banks become immediately operative as soon as such conversion is completed. *Second*, under Section 9, State Banks may become members, as State Banks, retaining their State charters, in which case such banks are subject, specifically, to the provisions of the Federal Reserve Act contained in Section 9, and to such other provisions of the Act as are clearly applicable. Banks becoming members as State Banks, therefore, may exercise those powers conferred by their State charters which are not in conflict with the specific provisions of the Federal Reserve Act.

State Banks and Trust Companies signifying their intention to become members of the Federal Reserve System before the organization of the Federal Reserve Banks will be permitted to participate in the selection of directors of said Reserve Banks, as prescribed by the Federal Reserve Act.

The Committee has prescribed the regulations under which State Banks and Trust Companies may become members, and a copy of such regulations, with the forms approved for use by such

banks, will be furnished upon request of any State Bank desiring to apply for membership in a Federal Reserve Bank.

M. C. ELLIOTT,
Secretary, Reserve Bank Organization Committee.

February 18, 1914.

Secretaries McAdoo and Houston gave out the following statement on their return to Washington today:

ORGANIZATION COMMITTEE REPORTS ON ITS INVESTIGATIONS We have spent practically from the 4th of January to the present time in hearing the views of business men and bankers on the problem of dividing the country into not less than eight, nor more than twelve districts and of locating in each district the main office of a Federal Reserve Bank. Of the two questions, the division of the country into districts is the more important and difficult. The Committee asked those who appeared before it to direct their attention to those two problems and to furnish all possible information. A great many able and impartial business men and bankers have submitted their best information and opinions and always in a spirit of great fairness. In preparing their information many of them had gone to the extent of presenting maps showing not only the districts they were interested in, but also the districts for all the nation. The Committee has held hearings in eighteen cities and has heard from every community of consequence in the sections of the country that it has visited. It has secured a vast deal of information on the movements of trade as well as on the currents of banking.

In every section of the country the Committee has found a practically unanimous conviction among bankers and business men that the currency bill will bring about most beneficial changes in the business of the country; in fact, the Committee heard no one speak who did not say that the measure was a great step in advance. The Committee was presented everywhere with overwhelming evidence of the enormous economic strength of the country and of the rapid progress of every section. The fact that the nation's banking resources as a whole make enormous advances every twelve or fifteen years, approximately doubling in each such period, was made evident; while this is true of the country as a whole, it was shown that certain sections are advancing with more rapid strides than others, and that the country is fundamentally exceptionally sound and strong economically. The facts and figures submitted to the Committee in every part of the country show amazing growth and strength and disclosed a condition of financial, industrial, commercial and agricultural soundness and prosperity that leaves no doubt as to the future.

The Committee was impressed by the frank admission of bankers throughout the country that the present banking system not only encourages, but actually has created striking artificial conditions of banking. With practical unanimity, the opinion was expressed that the new measure will restore normal conditions with great resulting benefits; that the present system not only furnishes no protection in times of real stringency, but also even in times of great prosperity, especially when

there are bounteous crops, makes it impossible to meet the conditions; and that there has been presented the singular contradiction of having bankers thrown into fear of a panic by the emergence of wealth. The bankers were unanimously of the opinion that the establishment of this reserve system will no longer make our prosperity a peril and that it will relieve them of apprehension and distress in those circumstances and give confidence and stability to business generally.

The Committee has finished its survey in the field. It has yet to make examination of important documents and data, and cannot render any decision until it has thoroughly examined this material. It can come to no conclusion about any part of the country until it has formed its conclusions for every part of the country, since the districts are necessarily interrelated and interdependent. It cannot, of course, decide the location of headquarters banks until the districts are defined.

SUFFICIENT CAPITAL IN SIGHT Already practically all the capital represented by the National Banks has come in. A number of State Banks have applied for National charters and many have applied for membership in the Federal Reserve System. In every State in the Union which the Committee has visited it has heard expressions from governors, banking commissioners, and others, to the effect that where there is any legal disability against subscription by State Banks, that disability would be removed, and the further expression that State Banks which were eligible would very generally seek to enter the system.

The fact that the problem confronting the Committee is one of vast National importance which should of necessity be dealt with on broad National economic lines, free from any local or political or partisan considerations, was recognized everywhere and was of course insisted upon at all the hearings by the Committee.

The Committee is gratified with the results of its trip. A great deal of information that could not have been secured from statistics or by remaining in Washington was obtained and in the shortest possible time, due in large measure to the fact that the Committee was able to give practically undivided attention to the problem during its absence.

Secretary McAdoo supplemented this statement with the following:

ORGANIZATION DELAY NOT TO CAUSE EMBARRASSMENT In a few instances the question was asked if the new Federal Reserve Banks would be organized in time to take care of the crop moving contingencies next Fall. It is hoped that the system may be established before that time, but if it should not be, the resources of the United States Treasury will be placed again at the disposal of and be used for the protection of the legitimate business interests of the country. The Treasury resources are believed to be adequate for the purpose, but if they should not prove to be, then it should be remembered that the Aldrich-Vreeland Act has been extended until June 30, 1915, and the tax upon circulation taken out under this measure has been reduced to the point where bankers may resort to it with advantage in case

necessity should arise. The financial situation is, therefore, sound and satisfactory and there is every reason why business should proceed normally and with confidence and courage.

February 19, 1914.

The following is a copy of a telegram sent to the Attorney General of each State:

Washington, February 19, 1914.

**INTERPRETATION
OF STATE LAWS
REQUESTED**

The Reserve Bank Organization Committee will be obliged if you will inform the Committee whether, under the laws of your State, it is permissible for State Banks desiring to enter the new system to subscribe to stock of the Federal Reserve Banks. If not, please advise when your Legislature next meets, and whether or not it is probable that at that time legislation giving such permission will be enacted. Prompt and full reply by mail will be much appreciated.

W. G. McADOO, Chairman.

The following is a copy of a telegram sent to National Banks which have not yet notified the Reserve Bank Organization Committee of their intention to enter the Federal Reserve System:

Washington, February 19, 1914.

**FINAL NOTICE
TO NATIONAL
BANKS**

The Organization Committee has ruled that under provisions of Federal Reserve Act all National Banks are required to accept same and to notify the Organization Committee to this effect on or before February 23, and failing to do so shall go into liquidation not later than December 22, 1914. Whether National Banks failing to give notice required on or before February 23 can under any circumstances be permitted by Board or Committee to enter the system later, has not been officially passed upon, but the unanimous ruling of Organization Committee is that no National Bank can claim this privilege as of right after date mentioned. National Banks representing over 98 per cent. entire National banking capital of United States have already given notice of intention to accept the provisions of new law. You are requested to notify Organization Committee immediately if it is the desire of your bank to accept provisions of Federal Reserve Act.

M. C. ELLIOTT,

Secretary, Reserve Bank Organization Committee.

REGULATIONS AND BY-LAWS, RESERVE BANK ORGANIZATION COMMITTEE, prescribing conditions under which State Banks and Trust Companies may subscribe to the stock and become members of Federal Reserve Banks.

Washington, D. C., February 20, 1914.

Regulation No. 3.

Section 9 of the Federal Reserve Act reads in part, as follows:

"Any bank incorporated by special law of any State, or organized under the general laws of any State of the United States, may make application to the Reserve Bank Organization Committee, pending organization, and thereafter to the Federal Reserve Board for the right to subscribe to the stock of the Federal Reserve Bank organized or to be organized within the Federal Reserve district where the applicant is located. The Organization Com-

mittee or the Federal Reserve Board, under such rules and regulations as it may prescribe, subject to the provisions of this section, may permit the applying bank to become a stockholder in the Federal Reserve Bank of the district in which the applying bank is located. Whenever the Organization Committee or the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal Reserve Bank of the district, stock shall be issued and paid for under the rules and regulations in this Act provided for National Banks which become stockholders in Federal Reserve Banks."

Pursuant to the provisions of this section, the Reserve Bank Organization Committee has prescribed the following regulations and by-laws specifying the conditions under which State Banks and Trust Companies may become members of Federal Reserve Banks.

First.—Any State Bank or Trust Company eligible to membership in a Federal Reserve Bank under the Federal Reserve Act and desiring to subscribe to the capital stock of the Federal Reserve Bank to be organized in the district which will include the place of business of such State Bank or Trust Company shall submit to its board of directors for consideration a resolution in the following form, to wit:

Whereas, Under Section 2 of the Act of Congress known as the Federal Reserve Act, approved on the 23d day of December, 1913, it is provided that: "Under regulations to be prescribed by the Organization Committee every National banking association in the United States is hereby required and every eligible bank in the United States and every trust company within the District of Columbia is hereby authorized to signify in writing within sixty days after the passage of this Act, its acceptance of the terms and provisions thereof;" and

Whereas, This bank is believed by the Board of Directors to be eligible to membership and to have the right to subscribe to the capital stock of the Federal Reserve Bank to be organized; and

Whereas, It is the intention of this Board to apply under the provisions of the Federal Reserve Act for its proper proportion of stock of the Federal Reserve Bank to be organized within the district in which this bank will be located when the geographical limits to be served by such Federal Reserve Bank have been fixed and announced by the Organization Committee;

Now, therefore, be it resolved, That the president of this bank be, and he hereby is authorized, empowered and directed to notify the Reserve Bank Organization Committee that this bank will apply for an allotment of stock of the Federal Reserve Bank aforesaid, and if granted, will become a member of such Federal Reserve Bank subject to the provisions of the Federal Reserve Act.

When such resolution has been passed by the board of directors, the president or executive officer of such State Bank or Trust Company shall transmit a duly certified copy of such resolution to the Reserve Bank Organization Committee at Washington.

Second.—When the location of the several Federal Reserve Banks provided for in the Federal Reserve Act have been established and the districts

to be served by such Federal Reserve Banks have been defined, the Committee will cause to be forwarded to such State Banks or Trust Companies, at the same time that applications are forwarded to National Banks under the provisions of the Federal Reserve Act, a form of application for an amount of capital stock in such Federal Reserve Bank equal to 6 per cent. of the unimpaired capital stock and surplus of such State Bank or Trust Company. This application must be accompanied by a statement showing the assets and liabilities of such State Bank or Trust Company listed on forms approved by the Committee. These forms will be furnished by the Committee upon request. The Board of Directors or a committee composed of not less than five members of such Board shall certify that in their opinion the assets listed in the manner prescribed by the Committee represent actual existing values and that in the opinion of said Board none of such assets are carried at an excessive valuation on the books of said bank.

POWERS OF STATE BANKS State Banks and Trust Companies shall also file with their applications for membership copies of their charters, with amendments, and a digest thereof showing the powers (granted by such charters and amendments) classified to indicate:

a. Those powers which such banks and trust companies have exercised and desire to continue to exercise.

b. Those powers which, while granted, have not been exercised and which such banks and trust companies will not desire nor attempt to exercise as members of the Federal Reserve System.

Third.—In lieu of a special examination of the condition of such bank by a National Bank examiner or examiner appointed by the Committee or the Federal Reserve Board, the Committee may accept a certificate from a duly accredited State examiner or bank commissioner to the effect that the statement filed by the Board of Directors as aforesaid represents the true condition of such State Bank or Trust Company and that the capital stock of such bank is in the opinion of such examiner or commissioner unimpaired, the surplus represents actual existing values and the liabilities are as shown by such statement. The Committee, however, will reserve the right in any case to require a special examination by a National Bank examiner or an examiner selected by the Committee or by the Federal Reserve Board as a condition precedent to membership in any Federal Reserve Bank.

Fourth.—Only those banks which have an unimpaired capital sufficient to entitle them to become National banking associations under the provisions of the National Bank Act shall be considered as eligible to membership in a Federal Reserve Bank.

In accordance with Section 5138, U. S. Revised Statutes, as amended by the Act of March 14, 1900, State Banks or Trust Companies in order to be eligible to membership must have unimpaired capital stock, as follows:

In cities or towns of less than 3,000 inhabitants, \$25,000.

In cities or towns of more than 3,000 inhabitants but less than 6,000 inhabitants, \$50,000.

In cities of more than 6,000 inhabitants but less than 50,000 inhabitants, \$100,000.

In cities of more than 50,000 inhabitants, \$200,000.

Fifth.—State Banks becoming members as such under the provisions of Section 9 of the Federal Reserve Act and retaining their State charters shall be subject to the provisions of Section 9 and to such other provisions of the Federal Reserve Act as are applicable thereto.

Sixth.—State Banks desiring to become members under Section 8 of the Federal Reserve Act by being first converted into National Banks in accordance with the provisions of this section, shall become members as National Banks. Where such conversion into National Banks is completed before the expiration of 60 days from the passage of the Federal Reserve Act, such banks should file with the Organization Committee the form of resolution prescribed by the Committee to signify their acceptance of the terms and provisions of the Federal Reserve Act before February 23, 1914. Where such conversion is not completed before the expiration of the 60 days aforesaid, the board of directors of such banks shall, in executing the articles of association and organization certificate as required by Section 8, at the same time adopt the resolution prescribed by the Organization Committee as aforesaid, and such resolution shall accompany the organization certificate filed with the Comptroller of the Currency.

Seventh.—Where such conversion is completed after the organization of the Federal Reserve Banks, such organization certificate shall be accompanied by an application to the Federal Reserve Board or to the Organization Committee for an amount of stock equal to 6 per cent. of the unimpaired capital and surplus of such bank.

Eighth.—Whenever a trust company shall become converted into a National Bank under the provisions of Section 8 of the Federal Reserve Act and shall desire to continue to act as trustee, executor, administrator or registrar of stocks and bonds, such organization certificate shall, when filed with the Comptroller of the Currency, be accompanied by an application to the Federal Reserve Board for permission to engage in such business, and no certificate for the conversion of such trust company into a National Bank shall be approved by the Comptroller of the Currency until the Federal Reserve Board has granted this permission under rules and regulations prescribed by it.

Ninth.—Whenever a State Bank or Trust Company with established branches shall make application for conversion into a National Bank and shall desire to retain such branches, such State Bank or Trust Company shall comply with Section 5155, U. S. Revised Statutes, which reads as follows:

“It shall be lawful for any bank or banking association organized under State laws, and having branches, the capital being joint and assigned to and used by the mother-bank and branches in definite proportions, to become a National banking association in conformity with existing laws, and to retain and keep in operation its branches, or such one or more of them as it may elect to retain; the amount of the

circulation redeemable at the mother-bank, and each branch, to be regulated by the amount of capital assigned to and used by each."

Tenth.—State Banks or Trust Companies applying for membership in the Federal Reserve System under Section 8 of the Federal Reserve Act by conversion into National banking associations, or applying for membership under Section 9 as State Banks will, if otherwise found to be eligible, be given a reasonable time within which to adjust the loans and investments of such banks to conform to the requirements of the Federal Reserve Act and other laws of the United States applicable thereto. Any bank applying for membership and having loans to any one person, firm, or corporation in excess of the limit allowed by the Federal Reserve Act or other loans and investments prohibited by such act shall, before being admitted to membership, give satisfactory assurance to the Committee or to the Federal Reserve Board that such loans and investments will be eliminated or made to conform to the provisions of the Federal Reserve Act and other applicable laws not later than January 1, 1915.

The condition of the applying bank or trust company and the general nature of its business will be considered by the Committee in each case in determining whether such banks shall be admitted to membership.

Eleventh.—The Committee or the Federal Reserve Board will from time to time adopt and publish such additional regulations and by-laws as may be deemed necessary and advisable.

W. G. McADOO, *Chairman*,
D. F. HOUSTON,
J. S. WILLIAMS,

Reserve Bank Organization Committee.

February 24, 1914.

EIGHTEEN NATIONAL BANKS REJECT RESERVE ACT

Out of a total of 7,493 National Banks in the continental United States, 7,465 have accepted the provisions of the Federal Reserve Act and signified their intention to subscribe to the capital stock of the Federal Reserve Banks to be organized. Of the remaining 28, 18 have notified the Committee of their intention not to accept the provisions of the Act, and 10 are still to be heard from. While no explanations accompanied the cards of nonacceptance sent in by the 18 banks referred to, the records of the Comptroller's office indicate that some of the banks declining to accept the provisions of the Act had already arranged to go into liquidation; and in one instance at least the failure to accept the provisions of the Act was due to the fact that the bank in question had been absorbed by or consolidated with another National Bank.

Of the 10 National Banks still to be heard from, 2 have already filed their papers with the Comptroller for permission to liquidate and 3 have been so recently organized that they have not yet had an opportunity to pass the necessary resolution of acceptance; so that only 5 out of a total of 7,493 National Banks may be properly classified as not having been heard from.

The following recapitulation shows the actual status of assenting and nonassenting banks:

RECAPITULATION

Number of National Banks in continental United States subject to the provisions of the Act	-	-	7,493
Number of banks which have accepted the provisions of the Act	-	-	7,465
Number of nonacceptances	-	-	18
Number of banks not yet heard from	-	-	10
			7,493 7,493
Total capital stock of National Banks in continental United States	-	\$1,057,093,554	
Aggregate capital of banks which have accepted the provisions of the Act	\$1,054,533,554		
Aggregate capital of banks which have signified their intention not to accept the provisions of the Act	-	1,990,000	
Aggregate capital of banks not yet heard from	-	570,000	
			\$1,057,093,554 \$1,057,093,554

It appears from the foregoing figures that over 99 per cent. of all National Banks in continental United States have accepted the provisions of the Federal Reserve Act and that the capital of such banks represents over 99¾ per cent. of the capital of all National Banks in the continental United States.

The number of National Banks in each State which have signified their acceptance of the terms of the Federal Reserve Act have been announced by the Organization Committee as follows:

New England States: Maine, 69; New Hampshire, 56; Vermont, 48; Massachusetts, 176; Rhode Island, 19; Connecticut, 77; total, 445.

Eastern States: New York, 479; New Jersey, 202; Pennsylvania, 835; Delaware, 25; Maryland, 102; District of Columbia, 12; total, 1,655.

Southern States: Virginia, 131; West Virginia, 118; North Carolina, 71; South Carolina, 49; Georgia, 115; Florida, 51; Alabama, 90; Mississippi, 34; Louisiana, 30; Texas, 518; Arkansas, 57; Kentucky, 144; Tennessee, 110; total, 1,518.

Middle States: Ohio, 378; Indiana, 257; Illinois, 460; Michigan, 98; Wisconsin, 128; Minnesota, 270; Iowa, 338; Missouri, 130; total, 2,059.

Western States: North Dakota, 144; South Dakota, 104; Nebraska, 234; Kansas, 211; Montana, 57; Wyoming, 30; Colorado, 122; New Mexico, 38; Oklahoma, 330; total, 1,270.

Pacific States: Washington, 76; Oregon, 83; California, 260; Idaho, 53; Utah, 23; Nevada, 10; Arizona, 13; total, 518.

RECAPITULATION:

New England	445
Eastern States	1,655
Southern States	1,518
Middle States	2,059
Western States	1,270
Pacific States	518

Total United States to Date 7,465

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